

**CITY OF MILLER**  
**AUDIT REPORT**  
**DECEMBER 31, 2009**

**CITY OF MILLER  
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# Gary L. Larson, CPA

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Pierre, SD 57501  
(605) 940-1284

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City Council  
City of Miller  
Miller, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Miller, South Dakota, as December 31, 2009, and for each of the years in the biennial period then ended, and have issued my report thereon dated September 17, 2010. My report was modified because the financial statements were prepared on the modified cash basis of accounting and I included a reference to other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the "Miller Housing and Redevelopment Commission", as described in my report of the City of Miller's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance or other matters that are reported on separately by those auditors.

### Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Miller's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

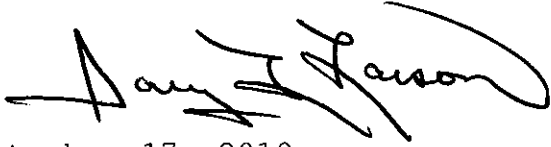
I consider the deficiency described in the Schedule of Current Audit Findings as item number 2009-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Miller's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City of Miller's response to the findings identified in my audit are described in the accompanying Schedule of Current Audit Finding. I did not audit the City of Miller's response, and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Miller, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Gary J. Hanson". The signature is fluid and cursive, with a large, sweeping loop at the end.

September 17, 2010

# Gary L. Larson, CPA

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900 Winchester Drive  
Pierre, SD 57501  
(605) 940-1284

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Miller  
Miller, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Miller, South Dakota, as of December 31, 2009, and for each of the years in the biennial period then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Miller's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the "Miller Housing and Redevelopment Commission", which represents 100% of the total assets as of December 31, 2009 and 100% of the total revenues for the year then ended of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to me, and my opinions on the financial statements, insofar as they relate to the amounts included for the "Miller Housing and Redevelopment Commission in the component unit column, are based on the report of the other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As discussed in Note 1, the City of Miller prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis, of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Miller, South Dakota, at December 31, 2009 and the respective changes in financial position thereof for each of the years in the biennial period then ended, in conformity with the basis of accounting described in Note 1.

In accordance with the Government Auditing Standards, I have also issued my report dated September 17, 2010 on my consideration of the City of Miller's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 47 through 55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The City of Miller has not presented the Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "David J. Gano", with a long horizontal flourish extending to the right.

September 17, 2010



## CITY OF MILLER

**DECEMBER 31, 2009**

## Primary Government

-6-

Component Unit
\$687,616
0
0
\$687,616

\$687,616
0
\$687,616

**CITY OF MILLER**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

Functions/Programs		PROGRAM REVENUES	
		Changes for Services	Operating Grants
<b>PRIMARY GOVERNMENT:</b>	<b>Expenses</b>		
Governmental Activities:			
General government	\$155,593	\$1,925	\$0
Public safety	323,564	3,816	18,648
Public works	302,254	17,136	0
Culture and recreation	153,640	12,785	0
Conservation and development	132,334	0	0
Debt service	161,641	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>1,229,026</b>	<b>35,662</b>	<b>18,648</b>
Business-type Activities:			
Water	601,264	358,725	0
Sewer	1,272,516	1,636,936	0
Electric	374,357	7,717	0
Airport	95,076	158,158	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>2,343,213</b>	<b>2,161,536</b>	<b>0</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$3,572,239</b>	<b>\$2,197,198</b>	<b>\$18,648</b>
Component Unit:			
Housing and Redevelopment Commission	\$239,679	\$106,065	\$89,221

GENERAL REVENUES:  
Property taxes  
Sales taxes  
State shared revenues  
Unrestricted investment earnings  
Debt issued  
Other general revenues

Total General Revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$153,668)	\$0	(\$153,668)	\$0
0	(301,100)	0	(301,100)	0
4,180	(280,938)	0	(280,938)	0
0	(140,855)	0	(140,855)	0
0	(132,334)	0	(132,334)	0
0	(161,641)	0	(161,641)	0
4,180	(1,170,536)	0	(1,170,536)	0
300,316	0	(181,613)	(181,613)	0
0	0	364,420	364,420	0
0	0	(66,324)	(66,324)	0
60,926	0	63,082	63,082	0
361,242	0	179,565	179,565	0
\$365,422	(\$1,170,536)	\$179,565	(\$990,971)	\$0
\$58,423	\$0	\$0	\$0	\$14,030
	285,603	0	285,603	0
	635,172	0	635,172	0
	49,047	0	49,047	0
	3,485	8,452	11,937	0
	0	124,259	124,259	21,670
	48,106	0	48,106	0
	1,021,413	132,711	1,154,124	21,670
	(149,123)	312,276	163,153	35,700
	678,908	754,320	1,433,228	651,916
	\$529,785	\$1,066,596	\$1,596,381	\$687,616

**CITY OF MILLER**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

Functions/Programs		PROGRAM REVENUES	
		Charges for Services	Operating Grants
<b>PRIMARY GOVERNMENT:</b>			
Governmental Activities:			
General government	\$183,214	\$1,952	\$0
Public safety	264,083	264	6,339
Public works	266,217	25,852	0
Culture and recreation	334,959	12,709	0
Conservation and development	132,231	0	0
Debt Service	160,986	0	0
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>1,341,690</b>	<b>40,777</b>	<b>6,339</b>
Business-type Activities:			
Water	377,300	327,185	0
Sewer	88,773	149,522	0
Electric	1,141,903	1,519,608	0
Airport	41,568	7,963	0
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,649,544</b>	<b>2,004,278</b>	<b>0</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$2,991,234</b>	<b>\$2,045,055</b>	<b>\$6,339</b>
Component Unit:			
Housing and Redevelopment Commission	\$161,527	\$116,087	\$49,962

**GENERAL REVENUES:**

Property taxes  
Sales taxes  
State shared revenues  
Unrestricted investment earnings  
Debt issued  
Other general revenues  
**TRANSFERS**

**Total General Revenues and Transfers**

**Change in net assets**

**Net Assets-beginning**

**NET ASSETS-ending**

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND  
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$181,262)	\$0	(\$181,262)	\$0
0	(257,480)	0	(257,480)	0
4,135	(236,230)	0	(236,230)	0
19,914	(302,336)	0	(302,336)	0
0	(132,231)	0	(132,231)	0
0	(160,986)	0	(160,986)	0
24,049	(1,270,525)	0	(1,270,525)	0
21,064	0	(29,051)	(29,051)	0
0	0	60,749	60,749	0
0	0	377,705	377,705	0
32,407	0	(1,198)	(1,198)	0
53,471	0	408,205	408,205	0
\$77,520	(\$1,270,525)	\$408,205	(\$862,320)	\$0
\$32,339	\$0	\$0	\$0	\$36,861

268,637	0	268,637	0
619,720	0	619,720	0
41,723	0	41,723	0
6,878	15,746	22,624	25,793
0	42,961	42,961	0
41,494	0	41,494	0
325,000	(325,000)	0	0
1,303,452	(266,293)	1,037,159	25,793
32,927	141,912	174,839	62,654
645,981	612,408	1,258,389	589,262
\$678,908	\$754,320	\$1,433,228	\$651,916

**CITY OF MILLER**  
**BALANCE SHEET-MODIFIED CASH BASIS-**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2009**

	General Fund
ASSETS	
Cash and cash equivalents	\$414,406
Restricted cash	115,212
TOTAL ASSETS	<u>\$529,618</u>
FUND BALANCES:	
Reserve for debt service	\$115,212
Unreserved:	
Designated for 2010 budget	119,390
Undesignated	<u>295,016</u>
Total Fund Balance	529,618
Internal service funds are used by management to charge the costs of activities, such as unemployment, to individual funds. The assets of internal service funds are included in governmental activities in the statement of net assets	<u>167</u>
Net assets, Governmental Activities	<u>\$529,785</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MILLER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund
Revenues:	
Taxes-	
General property taxes	\$284,745
General sales taxes	635,172
Penalties and interest on tax	858
Licenses and permits	21,261
Intergovernmental Revenue	
Federal grants	18,648
State shared revenues	63,658
County shared revenues	9,511
Charges for Goods and Services:	
General government	68
Public safety	3,670
Highways and streets	2,525
Health	25
Culture and recreation	12,785
Fines and Forfeits:	
Court fines	146
Miscellaneous Revenue	
Interest earned	3,485
Rentals	1,857
Special assessments	4,180
Contributions	5,255
Other	3,948
	<hr/>
Total Revenue	<hr/> \$1,071,797 <hr/>

The accompanying notes to financial statements are an integral part of this statement.



**CITY OF MILLER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund
Expenditures:	
General Government	
Executive	31,309
Elections	82
Financial administration	104,533
Other	18,327
Public Safety	
Police	303,521
Fire	20,041
Other	2
Public Works	
Highways and streets	302,254
Culture and Recreation:	
Recreation	118,583
Parks	35,057
Conservation and development	
Economic development	132,334
Debt service	161,641
Total Expenditures	<u>\$1,227,684</u>
Excess of revenues over (under) expenditures	(155,887)
Other Financing Sources (Uses):	
Sale of city property	<u>8,106</u>
Net Change in Fund Balance	(147,781)
FUND BALANCE JANUARY 1, 2009	<u>677,399</u>
FUND BALANCE, DECEMBER 31, 2009	<u><u>\$529,618</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MILLER**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

Net Changes in Fund Balances-Total Governmental Funds	(\$147,781)
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Internal service funds are used by management to charge the costs of certain activities, such as unemployment costs, to individual funds. The net income of the internal service funds is reported with governmental activities.

<u>(1,342)</u>
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Change in Net Assets of Governmental Activities
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<u><u>(\$149,123)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MILLER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Capital Projects Fund	Other Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$268,204	\$0	\$0
General sales taxes	619,720	0	0
Penalties and interest on tax	433	0	0
Licences and permits	20,402	0	0
Intergovernmental Revenue			
Federal grants	6,339	0	0
State shared revenues	61,421	0	0
County shared revenues	9,080	0	0
Charges for Goods and Services:			
General government	95	0	
Highways and streets	6,154	0	
Health	100	0	0
Culture and recreation	12,709	0	0
Fines and Forfeits			
Court fines	264	0	0
Miscellaneous Revenue			
Interest earned	4,418	1,571	889
Rentals	1,857	0	0
Special assessments	4,135	0	0
Contributions	4,842	19,914	0
Other	7,070	0	0
Total Revenue	<u>\$1,027,243</u>	<u>\$21,485</u>	<u>\$889</u>

The accompanying notes to financial statements are an integral part of this statement.

Total  
Governmental  
Funds

---

\$268,204

619,720

433

20,402

6,339

61,421

9,080

95

6,154

100

12,709

264

6,878

1,857

4,135

24,756

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7,070

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\$1,049,617

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**CITY OF MILLER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Capital Projects Funds	Other Governmental Funds
Expenditures:			
General Government			
Executive	\$33,726	\$0	\$0
Elections	646	0	0
Financial administration	131,529	0	0
Other	17,313	0	0
Public Safety			
Police	244,881	0	0
Fire	18,657	0	0
Other	545	0	0
Public Works			
Highways and streets	266,217	0	0
Culture and Recreation:			
Recreation	100,126	0	0
Parks	21,956	211,677	0
Museums	1,200	0	0
Conservation and development			
Economic development	132,231	0	0
Debt service	160,986	0	0
Total Expenditures	<u>\$1,130,013</u>	<u>\$211,677</u>	<u>\$0</u>
Excess of Revenues over (under) Expenditures	(102,770)	(190,192)	889
Other Financing Sources (Uses):			
Transfers-in	661,880	0	0
Transfers-out	<u>0</u>	<u>(26,309)</u>	<u>(310,571)</u>
Net Change in Fund Balances	559,110	(216,501)	(309,682)
FUND BALANCE, Beginning	<u>118,289</u>	<u>216,501</u>	<u>309,682</u>
FUND BALANCE, Ending	<u><u>\$677,399</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Total  
Governmental  
Funds

---

\$33,726

646

131,529

17,313

244,881

18,657

545

266,217

100,126

233,633

1,200

132,231

---

160,986

---

\$1,341,690

(292,073)

661,880

---

(336,880)

32,927

---

644,472

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\$677,399

**CITY OF MILLER**  
**BALANCE SHEET - MODIFIED CASH BASIS - PROPRIETARY FUNDS**  
**DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Electric Fund
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$138,513	\$243,408	\$615,718
Investments	0	0	59,743
<b>TOTAL ASSETS</b>	<b>\$138,513</b>	<b>\$243,408</b>	<b>\$675,461</b>
 <b>NET ASSETS</b>			
Unrestricted net assets	\$138,513	\$243,408	\$675,461
<b>Total Net Assets</b>	<b>\$138,513</b>	<b>\$243,408</b>	<b>\$675,461</b>

The accompanying notes to financial statements are an  
integral part of this statement.

Airport Fund	Total	Internal Service Fund
\$9,214	\$1,006,853	\$167
0	59,743	0
\$9,214	\$1,066,596	\$167

\$9,214	\$1,066,596	\$167
\$9,214	\$1,066,596	\$167



**CITY OF MILLER**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**MODIFIED CASH BASIS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Electric Fund
OPERATING REVENUES:			
Charges for goods and services	\$358,725	\$158,158	\$1,636,936
OPERATING EXPENSES:			
Personal services	113,451	59,902	139,127
Other current expense	87,916	35,174	179,621
Cost of goods sold	166,739	0	938,319
Capital assets	233,158	0	15,449
Total Operating Expenses	601,264	95,076	1,272,516
Operating Income (Loss)	(242,539)	63,082	364,420
Non-operating Revenue (Expense)			
Interest earned	966	1,406	6,080
Rental revenue	0	0	0
Long-term debt issued	124,259	0	0
Total Non-operating Revenue (Expense)	125,225	1,406	6,080
Income (loss) before contributions and transfers	(117,314)	64,488	370,500
Capital contributions	60,926	0	0
Transfers-in	0	0	0
Transfers-out	0	0	(75,000)
Change in Net Assets	(56,388)	64,488	295,500
NET ASSETS, BEGINNING	194,901	178,920	379,961
NET ASSETS, ENDING	\$138,513	\$243,408	\$675,461

The accompanying notes to financial statements are an integral part of this statement.

Airport Fund	Total	Internal Service Fund
\$4,107	\$2,157,926	\$0
0	312,480	1,342
11,921	314,632	0
0	1,105,058	0
362,436	611,043	0
374,357	2,343,213	1,342
(370,250)	(185,287)	(1,342)
0	8,452	0
3,610	3,610	0
0	124,259	0
3,610	136,321	0
(366,640)	(48,966)	(1,342)
300,316	361,242	0
75,000	75,000	0
0	(75,000)	0
8,676	312,276	(1,342)
538	754,320	1,509
\$9,214	\$1,066,596	\$167

**CITY OF MILLER**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**MODIFIED CASH BASIS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Electric Fund
<b>OPERATING REVENUES:</b>			
Charges for goods and services	\$327,185	\$149,522	\$1,519,608
<b>OPERATING EXPENSES:</b>			
Personal services	67,450	53,572	120,467
Other current expense	58,641	32,767	165,154
Cost of goods sold	158,291	0	838,270
Capital assets	92,918	2,434	18,012
Total Operating Expenses	377,300	88,773	1,141,903
Operating Income (Loss)	(50,115)	60,749	377,705
<b>Non-operating Revenue (Expense)</b>			
Interest earned	2,934	2,626	10,186
Rental revenue	0	0	0
Long-term debt issued	42,961	0	0
Total Non-operating Revenue (Expenses)	45,895	2,626	10,186
Income (Loss) before contributions and transfers	(4,220)	63,375	387,891
Capital contributions	21,064	0	0
Transfers-out	0	(25,000)	(300,000)
Change in Net Assets	16,844	38,375	87,891
NET ASSETS, BEGINNING	178,057	140,545	292,070
NET ASSETS, ENDING	\$194,901	\$178,920	\$379,961

The accompanying notes to financial statements are an integral part of this statement.

Airport Fund	Total	Internal Service Fund
\$4,353	\$2,000,668	\$0
0	241,489	0
7,455	264,017	0
0	996,561	0
34,113	147,477	0
41,568	1,649,544	0
(37,215)	351,124	0
0	15,746	0
3,610	3,610	0
0	42,961	0
3,610	62,317	0
(33,605)	413,441	0
32,407	53,471	0
0	(325,000)	0
(1,198)	141,912	0
1,736	612,408	1,509
\$538	\$754,320	\$1,509

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1 c., these financial statements are presented on modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting.

a. Financial Reporting Entity:

The reporting entity of the City of Miller consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause their financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on, the City (primary government).

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Miller Housing and Redevelopment Commission (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though retains the statutory authority to approve or deny or otherwise modify the commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Miller Housing and Redevelopment Commission may be obtained from: Miller Housing and Redevelopment Commission, 105 N. Broadway, Miller, SD. 57362.

b. Basis of Presentation:

*Government-wide Statements:* The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between the *governmental and business-type activities* and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1 a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1 a., above.

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

**Governmental Funds:**

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Additional Sales	A fund established by SDCL 10-52-2.
Tax Fund	This fund was closed to the General Fund in 2008.

**Debt Service Funds** - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Debt Service Fund	to account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is not a major fund. It was closed to the General Fund in 2008.
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**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Capital Projects Funds** - capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Capital Projects Fund	to account for financial resources to be used for the construction of the fire hall. This is a major in 2008. It was also closed to the General Fund in 2008.
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**Proprietary Funds:**

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund	a fund established under SDCL 9-47-1 and used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.
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**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sewer Fund	a fund established under SDCL 9-48-2 and used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.
Electric Fund	financed primarily by user charges this fund accounts for the construction and operation of the municipal electric system and related facilities. (SDCL 9-39-1 and 9-39-26). This is a major fund.
Airport Fund	financed by user charges and grants this fund accounts for the construction and operation of the City airport and related facilities. (SDCL 50-7-2). This is a major fund.

**Internal Service Funds** - internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provide to other funds are as follows: unemployment claims. Internal service funds are never considered to be major funds. The Unemployment Compensation Fund is the only internal service fund maintained by the municipality.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City uses the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

*Measurement Focus:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the economic resources" measurement focus is used, applied within the limitations of the modified cash basis of accounting.

*Basis of Accounting:*

In the Government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-type and component unit activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

are the recording of long-term investments (those with maturities of more than 90 days from date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities,

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

which are presented as Internal Balances. The City did not have internal receivables or payables as of December 31, 2009.

2. In order to minimize the doubling-up effect on the interfund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate. The City did not have any such internal activity during fiscal year 2008 or 2009.

e. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

f. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded not as assets, but as a program cost (expense) when they result from cash transactions.

g. Long-term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses that are capital and related financing activities or investing activities are reported as separate classifications of revenue or expense (on a modified cash basis).

j. Equity Classifications:

*Government-wide Statements:*

Equity is classified as net assets and is displayed in two components:

1. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets - All other net assets that do not meet the definition of "restricted."

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

It is the City's policy to deposit all interest revenue to the fund making the investment.

Custodial Credit Risk:

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized,
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The City's deposits were not exposed to the above risks as of December 31, 2009.



**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments were held as of December 31, 2009. Those classified as such on the financial statements are bank certificates of deposit having over 90 days of maturity.

**Custodial Credit Risk - Deposits** -The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

**Interest Rate Risk** - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** - The City places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

3. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

4. CHANGES IN CAPITAL ASSETS:

Since the City of Miller uses the modified cash basis of accounting, depreciation schedules are not maintained. A summary of changes in the cost of capital assets follows:

	<u>Balance</u> <u>01-01-08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-09</u>
Governmental Activities:				
Land	\$ 4,000	\$ 0	\$ 0	\$ 4,000
Buildings	1,111,503	284,364	0	1,395,887
Improvements	1,290,320	76,887	0	1,367,207
Equipment	<u>873,695</u>	<u>63,803</u>	<u>54,964</u>	<u>882,534</u>
	<u>\$3,279,518</u>	<u>\$425,074</u>	<u>\$ 54,964</u>	<u>\$3,649,628</u>
Business Type Activities:				
Land	\$ 73,406	\$ 0	\$ 0	\$ 73,406
Buildings	384,935	9,737	0	394,672
Improvements	4,356,160	603,326	0	4,959,486
Equipment	<u>612,796</u>	<u>27,738</u>	<u>0</u>	<u>640,534</u>
	<u>\$5,427,297</u>	<u>\$640,801</u>	<u>\$ 0</u>	<u>\$6,068,098</u>

5. LONG-TERM DEBT

A summary of changes in long-term debt follows:

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

5. LONG-TERM DEBT (continued)

Primary Government

	Beginning Balance	Additions (Deletions)	Ending Balance	Due within Year
Governmental				
Activities:				
Bonds Payable:				
Revenue	\$1,271,009	\$(226,578)	\$1,044,431	\$ 121,131
Business Type				
Activities:				
Bonds Payable:				
Revenue	-	167,220	167,220	11,147
Total Primary				
Government	<u>\$1,271,009</u>	<u>\$ (59,358)</u>	<u>\$1,211,651</u>	<u>\$ 132,278</u>

5. LONG-TERM DEBT (continued)

Debt payable at December 31, 2009 is comprised of the following:

Governmental Activities:

Revenue bonds:

Series 2005 Refunding Sales Tax Revenue  
 Bonds, interest rate of 3.35 to 4.37%  
 depending on length to maturity of  
 individual bonds, final maturity is  
 February 1, 2015. This debt is serviced  
 by the General Fund. \$ 770,000

Series 2005 Rural Development Sales Tax  
 Revenue Bonds, due in monthly installments  
 of \$984, including 4.25% interest, maturing  
 2035. This debt is serviced by the  
 General Fund. 182,746

Series 2005 Rural Development Sales Tax  
 Revenue Bonds, due in monthly installments  
 of \$492, including 4.25% interest, maturing  
 2035. This debt is serviced by the  
 General Fund. 91,685

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

5. LONG-TERM DEBT (continued)

Total Governmental Activities: \$1,044,431

Business Type Activities:

Series 2009 "SRF" loan, due in quarterly  
installments of \$4,738, including 2.5% interest,  
maturing January 1, 2020. Loan is being paid  
by the Water Fund. 167,220

Total Primary Government: \$1,211,651

The annual requirements to amortize all outstanding debt to the City are as follows:

Annual Requirements to Amortize  
Long-Term Debt - December 31, 2009

Revenue Bonds:

Year Ended December 31,	Governmental		Business	
	Principal	Interest	Principal	Interest
2010	\$ 121,131	\$ 40,790	\$ 11,147	\$ 3,066
2011	126,397	35,999	15,191	3,760
2012	131,674	30,882	15,574	3,377
2013	136,978	25,412	15,967	2,987
2014	142,277	19,613	16,370	2,581
2015-2019	199,428	37,304	88,263	6,492
2020-2024	56,603	31,957	4,708	30
2025-2029	58,748	29,812	-	-
2030-2034	65,374	23,186	-	-
2035-2039	5,821	96	-	-
Totals	<u>\$1,044,431</u>	<u>\$ 275,051</u>	<u>\$ 167,220</u>	<u>\$ 22,290</u>

6. CONDUIT DEBT

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

6. CONDUIT DEBT (continued)

sector entity served by the bond issuance. Neither the City, the State of South Dakota, nor any other political subdivision of the state is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2009, there was one of the conduit bonds outstanding, with an aggregate unpaid principal amount of \$650,000.

7. RESTRICTED NET ASSETS

The amount reported as restricted net assets include \$115,212 of the General Fund which is being held as a reserve account for Sales Tax Revenue Refunding Bonds, Series 2005 and Sales Tax Revenue Bonds, Series 2005. These assets are restricted as to use under the terms of the bond agreement, and are not available to the City.

8. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2008, were as follows:

<b><u>Transfers From:</u></b>		<b><u>Transfers To:</u></b>	
		General	
		Fund	
Governmental Funds			
Special Revenue Fund		\$	58,775
Debt Service Fund			251,796
Capital Project Fund			26,309
Enterprise Funds			
Water Fund			25,000
Electrical Fund			300,000
TOTAL		\$	<u>661,880</u>

The purpose of the 2008 transfers were:

To close Governmental Funds		
no longer used	\$	336,880
To subsidize General Fund		325,000
	\$	<u>661,880</u>

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

8. INTERFUND TRANSFERS

Interfund transfers for 2009 were a \$75,000 transfer from the Electric Fund to the Airport Fund. The purpose of this transfer was to help finance airport improvements.

9. PLEDGED REVENUES:

The City has pledged future water customers' revenues, net of specified operation expenses, to repay \$167,220 in water system revenue bonds issued in 2009. Proceeds from the loans provided financing for the construction of a water tower.

The bonds are payable solely from water customer net revenues and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 50% of net revenues. The total principal and interest remaining to be paid on the bonds is \$189,510. Principal and interest payments will begin in 2010.

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2009, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

10. RISK MANAGEMENT (continued)

control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, on the ultimate cost of the experience to date of SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the Pool to provide coverage for automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the Pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve under certain conditions. As of December 31, 2009, the City had a vested balance of \$36,219 in the reserve fund. The City carries a \$250 deductible for the property coverage and \$2,000 deductible for the law enforcement coverage.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary

**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

10. RISK MANAGEMENT (continued)

working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensations coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The Pool pays the first \$325,000 of any claim per individual. The Pool has reinsurance which covers up to \$1,675,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The City has reserved equity in the unemployment compensation Internal Service Fund in the amount of \$167 for the payment of future unemployment benefits.

During the year ended December 31, 2009, one claim for unemployment was paid in the amount of \$1,342.

11. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South



**CITY OF MILLER**  
**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

11. RETIREMENT PLAN (continued)

Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for fiscal years ended December 31, 2009, 2008 and 2007 were \$31,789, \$29,733 and \$28,826 respectively, equal to the required contributions each year.

**CITY OF MILLER**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
<b>REVENUES</b>			
Taxes:			
General property taxes	\$287,290	\$287,290	\$284,745
General sales and use taxes	635,000	635,000	635,172
Penalties and interest	500	500	858
Licenses and Permits	21,460	21,460	21,261
Intergovernmental Revenue			
Federal grants	3,000	3,000	18,648
State shared revenue	58,000	58,000	63,658
County shared revenue	9,150	9,150	9,511
Charges for Goods and Services			
General government	200	200	68
Public safety	0	0	3,670
Highways and streets	4,000	4,000	2,525
Health	500	500	25
Culture and recreation	14,800	14,800	12,785
Fines and Forfeits:			
Other	1,000	1,000	146
Miscellaneous Revenue			
Investment earnings	0	0	3,485
Rentals	1,850	1,850	1,857
Special assessments	3,500	3,500	4,180
Contributions	2,000	2,000	5,255
Other	6,750	6,750	3,948
<b>Total Revenue</b>	<b>\$1,049,000</b>	<b>\$1,049,000</b>	<b>\$1,071,797</b>

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with  
Final Budget-  
Positive  
(Negative)

---

(\$2,545)

172

358

(199)

15,648

5,658

361

(132)

3,670

(1,475)

(475)

(2,015)

(854)

3,485

7

680

3,255

(2,802)

---

\$22,797

**CITY OF MILLER**  
**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND-MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

EXPENDITURES	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
General Government			
Contingencies	\$10,000	\$10,000	\$0
Amount transferred	0	(10,000)	0
Executive	40,080	40,080	31,309
Elections	1,500	1,500	82
Financial administration	129,310	134,210	104,533
Other	24,825	24,825	18,327
Public Safety			
Police	317,082	332,305	303,521
Fire	41,800	41,800	20,041
Other	1,500	1,500	2
Public Works			
Highways and streets	407,170	407,170	302,254
Culture and Recreation			
Recreation	133,375	135,775	118,583
Parks	39,850	42,550	35,057
Conservation and Development			
Economic Development	132,500	132,500	132,334
Debt Service	161,645	161,645	161,641
Total Expenditures	1,440,637	1,455,860	1,227,684
Excess of Revenues over (under) Expenditures	(391,637)	(406,860)	(155,887)
Other Financing Sources:			
Sale of city property	5,500	5,500	8,106
Transfers-in	200,000	200,000	0
Net Change in Fund Balance	(186,137)	(201,360)	(147,781)
FUND BALANCE-Beginning	677,399	677,399	677,399
FUND BALANCE-Ending	\$491,262	\$476,039	\$529,618

The accompanying notes to supplemental information are an integral part of the schedule

Variance with Final Budget- Positive (Negative)
\$10,000
(10,000)
8,771
1,418
29,677
6,498
28,784
21,759
1,498
104,916
17,192
7,493
166
4
228,176
250,973
2,606
(200,000)
53,579
0
\$53,579

**CITY OF MILLER**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
<b>REVENUES</b>			
<b>Taxes:</b>			
General property taxes	\$274,077	\$274,077	\$268,204
General sales and use taxes	470,000	470,000	619,720
Penalties and interest	750	750	433
 Licenses and Permits	 19,710	 19,710	 20,402
 Intergovernmental Revenue			
Federal grants	2,000	2,000	6,339
State shared revenue	58,300	58,300	61,421
County shared revenue	8,650	8,650	9,080
 Charges for Goods and Services			
General Government	200	200	95
Highways and streets	4,100	4,100	6,154
Health	500	500	100
Culture and Recreation	15,400	15,400	12,709
 Fines and Forfeits:			
Court fines	2,000	2,000	264
 Miscellaneous Revenue			
Investment earnings	0	0	4,418
Rentals	1,850	1,850	1,857
Special assessments	3,475	3,475	4,135
Contributions	2,000	2,000	4,842
Other	9,000	9,000	7,070
 <b>Total Revenue</b>	 <b>\$872,012</b>	 <b>\$872,012</b>	 <b>\$1,027,243</b>

The accompanying notes to required supplemental information are an integral part of this schedule.

149,720

692

3,121

2,054

(2,691)

7

2,842

**CITY OF MILLER**  
**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND-MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

EXPENDITURES	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
General Government			
Contingencies	\$10,000	\$10,000	\$0
Amount transferred	0	(10,000)	0
Executive	37,530	37,530	33,726
Elections	1,500	1,500	646
Financial administration	149,965	149,965	131,529
Other	23,525	23,525	17,313
Public Safety			
Police	306,360	306,360	244,881
Fire	40,500	40,500	18,657
Other	1,500	1,500	545
Public Works			
Highways and streets	405,770	405,770	266,217
Culture and Recreation			
Recreation	106,136	116,136	100,126
Parks	30,600	30,600	21,956
Museums	0	1,200	1,200
Conservation and development			
Economic development	132,500	132,500	132,231
Debt Service	161,486	161,486	160,986
Total Expenditures	1,407,372	1,408,572	1,130,013
Excess of Revenues over (under) Expenditures	(535,360)	(536,560)	(102,770)
Other Financing Sources:			
Transfers-in	420,000	420,000	661,880
Sale of city property	5,500	5,500	0
Net Change in Fund Balance	(109,860)	(111,060)	559,110
FUND BALANCE-Beginning	118,289	118,289	118,289
FUND BALANCE-Ending	\$8,429	\$7,229	\$677,399

The accompanying notes to supplemental information are an integral part of the schedule



Variance with  
Final Budget-  
Positive  
(Negative)

---

\$10,000  
(10,000)  
3,804  
854  
18,436  
6,212

61,479  
21,843  
955

139,553

16,010  
8,644  
0

269

500

---

278,559

---

433,790

241,880  
(5,500)

---

670,170

0

---

\$670,170

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**CITY OF MILLER**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles, on a modified cash basis.

**CITY OF MILLER**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2009-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

**CRITERIA:**

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

**CONDITION, CAUSE AND EFFECT:**

The size of the entity precludes an adequate segregation of duties.

**RECOMMENDATION:**

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

**RESPONSE:**

The City agrees with the finding, but does not intend to hire additional personnel just to segregate duties.

**CITY OF MILLER**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**

FINDING NUMBER 2005-01 and 2007-02:

A lack of proper segregation of duties in the revenue function exists in the City's accounting department.

CURRENT STATUS:

The condition remains the same as of December 31, 2009.

FINDING NUMBER 2007-01:

Internal accounting controls over financial reporting for the years 2006 and 2007 were inadequate resulting in inaccurate information being presented to users of annual financial reports.

CURRENT STATUS:

No significant errors were noted in the presentation of the 2008 nor 2009 annual reports.